

# Joint Legislative Commission on Energy Policy: Modernization of Oil & Gas Statutes

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# What is the primary goal of statutory modernization?

- Provide certainty as to expectation
  - To the Public
  - To the Regulated Industry
  - To the Regulatory Agency
- Provide clarity as to how to meet the expectation
  - Ensure that each stakeholder understands its rights, obligations and duties



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# What is the underlying obligation?

- § 113-382. Declaration of policy.
- In recognition of imminent evils that can occur in the production and use and waste of natural oil and/or gas in the absence of equal or correlative rights of owners of crude oil or natural gas in a common source of supply to produce and use the same, and in the absence of adequate measures for the protection of the environment, this law is enacted for the protection of public interests against such evils by prohibiting waste and compelling ratable production and authorizing regulations for the protection of the environment.



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# How do you balance the existing and appropriate obligation with the need to modernize the statutes?

- Must have uniform application within the State
- Should confirm with best practices of the majority of other producing states
- Ensure protection of every property right, even when divergent
- Account for opportunities in technological advances
- Enact modern pooling and unitization which prevents waste, encourages production of resources and protects the environment by reducing the number of wells drilled



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# Uniformity within the State

- Statutes should address every formation identically
- Significantly better compliance with the statutory scheme that is uniformly applied
  - Fewer exceptions to trip over
  - More continuity in application



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# National Conformity

- Due to the efforts of the Interstate Oil & Gas Conservation Commission, North Carolina is an Associate Member State, through its model statute project has provided excellent national conformity for core oil and gas issues
- Unconventional resource development, such as that anticipated in the Dan River and Deep River Basins, has largely been undertaken by large independent O&G operators who work nationally thereby bringing a national understanding heavily influenced by the IOGCC



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# Equal Protection of Property Rights

- Oil and gas development necessitates a variety of different property rights
  - Fee estate
  - Split estates
  - Overriding Royalties
  - Non-participating Royalties
- Must balance the interests of all parties



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# Necessary Statutory Provisions

- Independent & Experienced Commission
  - Multiyear appointments by Governor and Legislative Leadership
  - Majority of Commissioners should be experienced in development, exploration or transportation of oil or gas
- Independent Agency
  - Primacy subject to environmental regulations
  - Dedicated Director and Staff
- Well spacing and density provisions
- Compulsory pooling provisions
- Compulsory unitization provisions
- Enforcement provisions



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# Well Spacing and Density Provisions

- Reduces surface impacts
  - Fewer wells required to adequately produce resource
- Prevents waste
  - Economic
    - Fewer wells drilled
  - Resource
    - Produces reservoir most efficiently
- Protects correlative rights
  - Ensures mineral interests are not drained



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# Compulsory Pooling & Compulsory Unitization Provisions

- **Pooling** is the combination of all or portions of multiple oil and gas leases to form a unit for the drilling of a single oil and/or gas well
  - Prevents waste – reduces drilling improves efficiency
  - Protects correlative rights - particularly small tracts
  - Maximizes ultimate recovery
- **Unitization** provides for the exploration and development of an entire geologic structure or area by a single operator so that drilling and production may proceed in the most efficient and economic manner.
  - Like pooling it reduces drilling and improves efficiency
  - Combination of multiple wells



# Miscellaneous Observations Counter to National Trends

- Revise landowner protection section as written
  - Well beyond national standard
  - Creates economic and operation disincentive for operators
- Provide for operator's lien
  - provide for operator's lien against production
- Lack of development incentives
  - Discovery well tax incentives
  - High cost well payout provisions
  - Secondary recovery tax credits to incentivize complete extraction



# Questions?

The bottom half of the slide features a horizontal banner image. It shows the dark silhouettes of several oil pumpjacks (jackals) against a vibrant, orange and yellow sunset sky. The pumpjacks are arranged in a line, receding into the distance from left to right. The overall mood is industrial and dramatic.

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